

ISSUE PAPER

Compliance Supplement Pool

The U.S. EPA's final NO_x SIP call included provisions for establishing a pool of NO_x emissions allowances that would be available to sources that could not implement required control measures by 2004 or that made reductions in advance of the 2004 compliance date. The compliance supplement pool was established on a state by state basis and the amount of allowances in the pool was calculated based on the amount of NO_x reductions required within an individual state. The amount of NO_x allowances in the compliance supplement pool for Indiana is 19,915 tons.

The final federal rule presented two options for distribution of the compliance supplement pool; early reduction credits or demonstration of need. Sources could install controls and monitoring systems prior to 2004, reduce NO_x emissions and generate early reduction credits. The source could then submit a request to receive NO_x allowances from the compliance supplement pool in the amount of the early reduction credits and could sell or transfer those allowances to other sources that could not meet the May 31, 2004 compliance deadline or the allowances could be used for other units at the same source.

The other option is for those sources that could not generate early reduction credits or could not implement the required control measures by the deadline. Under this option, a source could request NO_x allowances based on need. The source would have to include with the request a demonstration of need that showed that the source could not generate early reduction credits, could not buy or otherwise receive NO_x allowances from another source, or could not install the controls due to electricity reliability issues. This demonstration of need could also be used by industrial sources, although instead of energy reliability, the source would have to demonstrate undue risk to a degree comparable to the utility industry. The distribution of NO_x allowances based on need must go through a public process and would take place between September 30, 2003 and May 31, 2004.

Any NO_x allowances that are not distributed by May 31, 2004 will be retired by the U.S. EPA.

Considerations with a Compliance Supplement Pool (CSP):

Should Indiana's rule include a CSP?

Should all of the CSP be retained for early reduction credits?

Should the CSP be divided in half and 50% retained for early reduction credits and 50% retained for demonstration of need?

Should all of the CSP be retained for demonstration of need?

Can a separate pool be established exclusively for early reduction credits?

What criteria must be met for generating early reduction credits? (U.S. EPA included two

different criteria: reduce below any applicable requirement or obtain an 80% reduction from 2000 emission rate and be below 0.25 lb/mmBtu) What information should be presented by the source requesting the early reduction credits?

What criteria must be met for a utility source to demonstrate an undue risk of electricity system reliability or an industrial source to demonstrate a comparable undue risk? What information must be provided.

Since the court has postponed the compliance date by 1 year, should the compliance pool be available for only 2004 or should the 2 years U.S. EPA initially contemplated still be available (i.e., the 2004 and 2005 ozone seasons)?

By when should the CSP be distributed? Should it be on a first-come, first-served basis or distributed proportionally among all who apply by a certain date?